NJ Department of Education The Office of Fiscal Accountability & Compliance

Investigative and Audit Activities
September 2009

The Office of Fiscal Accountability & Compliance

- In order to provide better oversight of the expenditure of state education funds, Commissioner Lucille E. Davy consolidated the department's compliance, investigation and fiscal auditing units, by creating the Office of Fiscal Accountability and Compliance (OFAC) in February 2007.
- The OFAC's primary function is to conduct audits and investigations of compliance and fiscal matters pertaining to New Jersey school districts, charter schools and private schools for students with disabilities.

The Office of Fiscal Accountability & Compliance

The OFAC is comprised of six units:

- Criminal History Review Unit
- Investigations Unit
- State Aid Audit Unit
- Internal Audit Unit
- State-Operated School Districts Internal Audit Unit
- Single/Grants Audit Unit

Criminal History Review Unit

- Conducts criminal background checks of applicants for positions in New Jersey's public, charter, private schools for students with disabilities, nonpublic schools and authorized school bus contractors.
- Performs quarterly comparisons with the Department of Labor, Wage Reporting Database to determine if individuals are employed in educational facilities or school bus contractors have not undergone the criminal history record check.
- Initiates new criminal cases for individuals who have been disqualified or rendered ineligible.

Investigations Unit

- Conducts investigations of external allegations of wrongdoing and, as requested by the Commissioner, audits specific programs and functions of school districts.
- Performs audits of Early Childhood Education programs.
- Investigates complaints of wrongdoing pertaining to the Educational Facilities Construction and Financing Act

State Aid Audit Unit

- Ensures the accuracy of enrollment and data reported on the Application for State School Aid (ASSA), District Report of Transported Resident Students (DRTS), and Application for Extraordinary Aid for Special Education Costs (EXAID) by New Jersey School Districts are accurate.
- Audit review includes verification of EXAID cost as well as Low Income eligibility for free and reduced price meal applications (National School Lunch Act) to support Low Income Enrollment on the ASSA use for The School Funding Reform Act of 2008..

Internal Audit Unit

- Performs financial and compliance reviews of departmental accounts, financial transactions and programs.
- Implements department-wide vulnerability assessments and internal control evaluations.
- Performs internal investigations.
- Coordinates audits and the resolution of audit findings by external auditors for federal, state and independent audits.

State-Operated School Districts Internal Audit Unit

- Oversees the internal audit units in the State-Operated School Districts of Newark and Paterson and provides independent and objective assessment of the financial operations of these districts.
- Provides the Commissioner of Education and the State District Superintendents with information about the adequacy and effectiveness of the district's internal controls and financial activities by performing financial, operational, and compliance audits.
- Assists in monitoring the district's business functions by providing informal consultative services to the business administrator and other management personnel.

Single/Grants Audit Unit

- Conducts fiscal monitorings of private schools for students with disabilities for compliance with the New Jersey Administrative Code.
- Performs school district fiscal audits of the NCLB Title I Program and Vocational Education Program in accordance with the federal legislation and department guidelines.
- Oversees the department's compliance with the U.S. Single Audit Act through the collection of Comprehensive Annual Financial Reports (CAFRs) for all New Jersey local education agencies and sub-recipients, desk reviews of the CAFRs and through federal review of our single audit program on an annual basis.

The CAFR Desk Review Process

- This process warrants mention in particular as it impacts all school districts and charter schools.
 - The SGAU formerly performed desk reviews of one-third CAFRS every year the percentage of reviews completed will increase to 100% due to recent communication from USDOE.
 - Letters detailing the results of desk reviews are sent to CPA firms.
 - Deficiencies must be corrected by the CPA firm within 30 days if applicable.

The CAFR Desk Review Process

- CAFRS are reviewed to select districts for future monitoring.
- Audit triggers include, but are not necessarily limited to:
 - The dollar amount of federal and state awards.
 - The nature and number of audit findings (i.e. material weaknesses).
 - LEAs that have deficits.
 - Appointment of a state monitor.
 - QSAC scores.
 - Late submission of the CAFR.

The CAFR Desk Review Process

■ Common Deficiencies (Single Audit Section)

- The language contained in the K-1 and K-2 reports are not consistent with Audit program.
- The format of major program findings i.e. elements of a finding condition, cause, criteria, effect, etc. is not followed.
- Award amounts reported on the Schedules of Federal/State Expenditures do not agree with NJOMB GN)^ and NJDOE State Aid Payment award amounts.

Common Deficiencies (cntd)

- Confusion regarding the Single Audit Threshold (\$500k) vs. Type A/B Threshold (\$300K) which determines Major Programs leads to not performing the Single Audits of certain Major Programs.
- Errors in Major Program Determination (A133.520) leads to misreporting of audit coverage of Major Federal/State Programs.
- Inconsistencies in Major Program identification among

 (a) Federal & State Type A Worksheets (b) Federal
 Data Collection Form (c) K-6.

Common Deficiencies (cntd)

■ Prior Period Findings are not reported in accordance with A-133.315(b).

Status of Findings	Summary Schedule
Findings are fully corrected.	List the audit findings and state corrective action has been taken.
Findings are not corrected or partially corrected.	Describe the planned corrective action as well as any partial corrective action taken.
The corrective action taken is significantly different from corrective action previously reported in a corrective action plan or in the department's deficiency letter.	Provide an explanation.
The auditee believes the audit findings are no longer valid or do not warrant further action.	Describe the reasons for this position.

OFAC Audit and Investigations

What is the primary cause of findings detected by OFAC during completion of audits and investigations?

Failure to adhere to or the absence of internal controls.

Internal Controls and ARRA Funds

- The level of concern regarding internal control procedures has been elevated significantly due to ARRA funding.
- Sample GAO Questions to NJDOE concerning internal controls:
 - Have the oversight systems/process at the state and local level been modified to help ensure adequate internal controls and compliance associated with ARRA?
 - How and when are LEAs required to report back to the state on internal controls and compliance with state guidance?

Internal Control Deficiencies

Factors which contribute to internal control deficiencies include, but are not limited to:

- Inadequate segregation of duties and responsibilities.
- Staff members are not adequately trained or do not have access to information necessary to perform tasks.
- Internal controls are not documented for financial reporting processes.
- Lack of a formal program for monitoring internal controls.
- Staff members are not familiar with internal controls.
- Standard control procedures/reconciliations are not performed, reviewed, or approved.
- Numerous paper-based, manual and labor-intensive functions.